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SUBJECT: BNHI DECLINES TO DELAY PHARMACEUTICAL PRICE CUTS

REF: A) TAIPEI 1289, B) 05 TAIPEI 4685

¶1. Summary. AmCham Pharmaceutical Committee members and AIT/T met with Bureau of National Health Insurance (BNHI) officials on May 15, 2006 as part of regular bimonthly consultations between U.S. industry and BNHI. AmCham members shared points that will be raised in its soon to be released White Paper. AIT/T listed concerns to be raised in the May 25-26 Trade and Investment Framework Agreement (TIFA) consultations. AIT/T proposed that BNHI postpone impending reimbursement price cuts, but BNHI President Liu Chien-hsian declined to do so, citing pressure from the Legislature to reduce expenditures. End Summary.

AmCham White Papers on Pharmaceutical Issues

¶2. Melt Van Der Spuy, Chairman of AmCham Pharmaceutical Committee, opened the meeting by praising BNHI's success in reducing outpatient visits to medical research centers by introducing a co-payment mechanism, adjusting premiums based on household income, providing data exclusivity protection for patented drugs, and readjusting reimbursement pricing of generics to 80 percent of originals. This last measure would weaken generics' ability to offer discounts to hospitals and thus partially address the "black hole" problem. However, U.S. pharmaceutical industry representatives continued to express their concerns over the high number of outpatient visits and improper over-prescription of drugs. AmCham members urged BNHI to consider further reducing the reimbursement price of generics to 70% of that of innovative drugs. Finally, the U.S. pharmaceutical industry encouraged Taiwan to implement actual transaction pricing (ATP) and to separate prescribing and dispensing (SPD).

TIFA Theme I -- Price Volume Survey (PVS)

¶3. U.S. pharmaceutical companies questioned the accuracy of the price volume survey information collected by BNHI. Firms noted that the local press reports cases of drug wholesales filling false pricing information with BNHI. According to the reports, Taiwan authorities have begun investigating 9,800 local drug wholesalers, accounting for nearly 45 percent of pharmaceutical firms in Taiwan, for filing false information in order to get a higher reimbursement price.

¶4. U.S. industry also asked BNHI to adopt a more transparent and predictable pricing mechanism in order to create a workable operational market environment for U.S. firms. Industry asked BNHI to suspend the PVS and subsequent reimbursement price cuts pending completion of the investigations and creation of a more transparent

survey system. BNHI President Liu responded that BNHI is obligated to follow established legal procedures, and cannot suspend the price volume survey. Liu suggested that BNHI was willing to consider any proposals from industry that would improve implementation of the PVS, but repeated that BNHI could not suspend or postpone the planned price cuts.

TIFA Theme II -- Universal Price Cuts

¶5. BNHI Vice President Lee Cheng-hwa asked what U.S. firms would think of a universal price cut. U.S. industry representatives responded that such a proposal could be considered but would require additional specifics to ensure that generic drug reimbursements are subject to deeper cuts.

TIFA Theme IV -- Official Notification of IPR Infringement

¶6. U.S. industry representatives and AIT asked BNHI to support plans to protect patented drugs from infringing generics by establishing a patent linkage system modeled on the U.S. system. BNHI Chairman Liu responded that IPR concerns were best handled by the Department of Health, but promised to pass the concern to DOH. Liu noted that current regulations require BNHI to approve reimbursement prices for DOH-approved generics without consideration of patent infringement.

Need additional Pressure to Move BNHI on PVS Price Cuts

¶7. Comment: AIT/T has successfully assisted U.S. pharmaceutical industry to establish a regular communication channel with Taiwan's health care administration offices. This has been a useful tool to improve communication between the Taiwan authorities and international industry and minimize misunderstandings. The TIFA meetings May 25 and 26 are another opportunity to press the Taiwan authorities to deliver concrete results to meet industry concerns about pharmaceutical pricing. BNHI Chairman Liu is feeling pressure from Taiwan's legislature to cut costs; he was insistent that the PVS price cut would take effect in July as planned. End Comment.

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